

Speaker's Stand: Alabama — A great investment

by David G. Bronner

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I have recently stated that independent experts would determine whether the Retirement Systems of Alabama's investment policy of investing approximately 10 percent of its portfolio in Alabama projects was a better strategy than investing 100 percent of its portfolio in the equity and bond markets.

Having read the experts' reports, I can state unequivocally that is the case: Not only have the Alabama investments been of tremendous benefit to all parties, but the performance of those investments has far exceeded my expectations.

The RSA commissioned two economists, Sam Addy of the University of Alabama and Keivan Deravi of Auburn University at Montgomery, to report on the RSA's economic impact, including the impact of its Alabama investments. In his report, Addy examined the overall economic impact of the RSA for the period of 2009, 2010 and 2011. Deravi instead focused on the economic impact of the Alabama investments over a 22-year period from 1990-2011. Both concluded that the Alabama investments had a very positive economic impact in Alabama, but because of the longer period examined by Deravi, I will focus on his findings.

RSA benefits are funded by three sources: member contributions, investment returns and employer contributions. Deravi's study showed that the RSA's investment of approximately 10 percent of its portfolio in Alabama projects returned an estimated \$1.5 billion in state and local tax revenues over a 22-year period. That \$1.5 billion funded employer contributions, not only at the state level, but also for the hundreds of local, county and municipal entities that are RSA members.

The report also estimated what would have happened to RSA investment returns had the funds invested in Alabama instead been invested in the stock and bond markets during that period. The increased value of RSA trust funds under this hypothetical would be approximately \$542 million. Thus, in exchange for foregoing \$542 million in traditional investment returns, the state and local employers who are mandated to make contributions received almost three times that much in tax revenues. That directly benefited state and local governments and RSA members and retirees.

The results of the Alabama investment policy on tax revenues is impressive, but what is really astounding about the economic impact report is that it shows that those investments also generated \$28 billion in gross domestic product, \$14.3 billion in payroll and 282,564 full-time equivalent jobs in Alabama during 1990-2011. The report finds that for every \$1 the RSA invested in Alabama, the state has gained an additional return of \$1.57.

Some people may not be happy with these results and argue that all RSA monies should be in the equity and bond markets. In fact, the Alabama investments have served as a hedge that has protected against broader market conditions. Public and private pension funds throughout the country have suffered from the abysmal performance of the market over the last 10 years. And although the RSA's returns have beaten the broader markets, the 10-year rolling return of the stock market generally in 2009 was negative and the lowest such return at any point in the history of the market, including the Great Depression era.

As a result, more than 40 states have instituted some kind of pension reform in the last two years. Public employers and the RSA also suffered from the general market downturn, but as measured by these studies, not as much as if all of the RSA's funds had been invested in the market alone.

Other critics of RSA and its investment strategy argue that Alabama should adopt a defined contribution pension program and abandon its defined benefit program. That argument has nothing to do with the Alabama investment strategy and already has been addressed legislatively.

I am confident the RSA has taken the steps it needs to address these tough economic times. Most important, I am assured by the results of these economic impact reports that the RSA's Alabama investments have been part of the solution, not part of the problem.

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